

Message Text

PAGE 01 NATO 02145 181919Z

11
ACTION EUR-12

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C O N F I D E N T I A L USNATO 2145

E.O. 11652: GDS
TAGS: MPOL, NATO, UK
SUBJECT: REDUCTIONS IN UK DEFENSE BUDGET

AMBASSADOR PECK (UK) HAS FURNISHED ALL DPC PERMREPS WITH COPY
OF HIS LETTER TO SYG LUNS ON CUTS IN UK DEFENSE BUDGET.
CHANCELLOR OF THE EXCHEQUER ANNOUNCED CUTS IN HIS APRIL 15
BUDGET STATEMENT.
TEXT OF LETTER FOLLOWS:

BEGIN TEXT:

UK DEFENSE BUDGET

1. I THINK IT MIGHT BE HELPFUL IF I WERE TO LET YOU AND MY
COLLEAGUES HAVE SOME BACKGROUND INFORMATION ABOUT THE REASONS
WHY SOME REDUCTIONS IN THE UK DEFENCE BUDGET WERE ANNOUNCED
BY THE CHANCELLOR OF THE EXCHEQUER YESTERDAY.

2. IN HIS BUDGET STATEMENT ON 15 APRIL THE CHANCELLOR OF
THE EXCHEQUER OUTLINED THE EXTREMELY GRAVE NATURE OF THE
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PAGE 02 NATO 02145 181919Z

UNITED KINGDOM'S ECONOMIC PROBLEMS AS THEY HAVE DEVELOPED IN
THE LAST FEW MONTHS-A BALANCE OF PAYMENTS DEFICIT LARGER
THAN ANY IN EUROPE, FINANCED BY MASSIVE OVERSEAS BORROWING,
WAGE-LED INFLATION RUNNING AT A RATE FAR ABOVE OTHER EUROPEAN

COUNTRIES, AND FINALLY A PUBLIC SECTOR BORROWING REQUIREMENT WHICH REPRESENTED SOME 10 PCT OF GNP IN 1974/75, AND WHICH ON UNCHANGED POLICIES WOULD GROW IN 1975/76 AND LATER YEARS TO AN EXTENT, WHICH WOULD SERIOUSLY IMPEDE THE CORRECTION OF THE PRESENT IMBALANCES IN THE ECONOMY.

3. THE CHANCELLOR HAS TAKEN MEASURES INTENDED TO REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT BY WELL OVER POUND 1 BILLION IN 1975/76: AND BY POUND 3 BILLION IN 1976/77. IN ORDER TO AVOID THE DISRUPTIONS ASSOCIATED WITH SHORT TERM PUBLIC EXPENDITURE CUTS THE MAIN MEANS FOR ACHIEVING THIS REDUCTION IN 1975/76 WILL BE A SUBSTANTIAL INCREASE IN TAXATION. BUT IN 1976-77 THERE WILL BE CUTS OF PUBLIC EXPENDITURE OF POUNDS 900 MILLION AT 1974 SURVEY PRICES. TOGETHER THESE AND OTHER MEASURES IN THE BUDGET ARE INTENDED TO FREE RESOURCES FOR THE UK ECONOMY TO BE ABLE TO TAKE ADVANTAGE OF THE EXPECTED UPSWING IN WORLD TRADE NEXT YEAR. OF THE POUND 900 MILLION CUTS, POUND 110 MILLION WILL BE FOUND FROM THE PLANNED DEFENCE BUDGET.

4. THE REVISED TOTAL EXPENDITURE ON DEFENCE FOR THE YEAR 1976-77 WILL BE POUND 3,690 MILLION AT 1974 SURVEY PRICES AND THERE WILL BE SOME CONSEQUENTIAL SAVINGS IN THE FINANCIAL YEAR 1975-76, POSSIBLY OF THE ORDER OF A QUARTER OF THE 1976-77 SAVINGS. THE BULK OF THE SAVINGS ARE EXPECTED TO BE MADE FROM ADJUSTMENTS TO THE EQUIPMENT AND WORKS PROGRAMMES COMPATIBLE WITH THE DEFENCE REVIEW FORCE LEVELS. THE ESSENTIAL ELEMENTS OF OUR FORCES AND THUS OF OUR CONTRIBUTIONS TO NATO WILL REMAIN INTACT. AS A RESULT, DEFENCE EXPENDITURE IN 1975/76 AND 1976/77 WILL BE AT ABOUT THE SAME LEVEL IN EACH YEAR; BUT IN BOTH YEARS EXPENDITURE, IN PARTICULAR ON THE EQUIPMENT PROGRAMME, WILL BE HIGHER THAN FOR 1974-75.

5. THE EFFECT OF THESE MEASURES WILL BE SOMEWHAT TO ACCELERATE THE IMPLEMENTATION OF CERTAIN OF THE DEFENCE SAVINGS ENVISAGED IN THE DEFENCE REVIEW THOUGHT IT WILL TAKE TIME TO WORK OUT THE PRECISE TIMINGS AND IMPLICATIONS FOR DETAILED PRO-CONFIDENTIAL

PAGE 03 NATO 02145 181919Z

GRAMMES. WE NATURALLY REGRET THAT THIS HAS BEEN NECESSARY. BUT OTHER PUBLIC EXPENDITURE PROGRAMMES ARE BEING CUT BACK BELOW THE LEVELS PREVIOUSLY AGREED AND DEFENCE HAS HAD TO TAKE ITS SHARE.

END TEXT
BRUCE

CONFIDENTIAL

<< END OF DOCUMENT >>

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To: STATE
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